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*Cygnus*

**CORPORATION LIMITED**

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A N N U A L

R E P O R T

## DIRECTORS

ROBERT A. BROWN, JR.  
*President and Managing Director*  
*Home Oil Company Limited*

ROBERT W. CAMPBELL  
*Executive Vice-President and General Manager*  
*Home Oil Company Limited*

WILLIAM F. JAMES, Ph.D.  
*Partner - James, Buffam & Cooper*

BENTON MACKID  
*Vice-President and Director*  
*Reed Shaw Osler Limited*

HARRY I. PRICE  
*Chairman of the Board*  
*Harry Price, Hilborn Insurance Limited*

ARTHUR M. SHOULTS  
*President - James Lovick Limited*

J. ROSS TOLMIE, Q.C.  
*Partner - Herridge, Tolmie, Gray, Coyne & Blair*

## OFFICERS

R. A. BROWN, JR. .... *President and*  
*Chairman of the Board*

R. W. CAMPBELL ..... *Executive Vice-President*

W. T. WILKINSON ..... *Vice-President and*  
*General Manager*

R. B. COLEMAN ..... *Secretary*

B. B. ROMBOUGH ..... *Treasurer*

F. G. MITCHELL ..... *Assistant Secretary*

P. M. MacLEAN ..... *Assistant Treasurer*

## AUDITORS

*Riddell, Stead & Co.*

## SOLICITORS

*Macleod, Dixon, Burns, Love, Leitch, Lomas,*  
*Charters & Montgomery*

## BANKERS

*Canadian Imperial Bank of Commerce*

## REGISTRAR AND TRANSFER AGENT

*Crown Trust Company*

## LISTINGS

*Class A and Class B Shares*

*Montreal Stock Exchange - Toronto Stock Exchange*

*Calgary Stock Exchange - Vancouver Stock Exchange*



## TO THE SHAREHOLDERS

### Financial

The gross revenue of Cygnus Corporation for 1969 at \$727,447 showed an increase of almost \$200,000 over the previous year's \$528,840. However, expenses at \$611,166 were up \$437,935 over the \$173,231 recorded in 1968. As a result of the increased expenses, together with the lower earnings of the subsidiary companies, net income amounted to \$154,262 for 1969 as compared with \$429,825 earned in the previous year.

Dividend income received on the shares of Atlantic Richfield Company acquired in the latter part of 1968 and increased interest received by the Company on loans made to subsidiary companies accounted for the increase in gross revenue. The increase in expenses was principally due to additional bank interest of approximately \$410,000.

In August, 1969, your Company called for redemption of the outstanding 5½% Cumulative Redeemable Convertible Preferred Shares. The conversion of these shares resulted in the issuance of an additional 427,160 Class A shares of the Company, and an accompanying reduction in our dividend commitments.

### Investments

The Company's principal asset is its holding of 1,000,000 Class B (voting) shares of Home Oil Company Limited. The market value of these shares has declined substantially due principally to the overall weakness of the equity market, particularly in the oil sector.

Home's 1969 results showed gross revenue at \$27,724,000 up 9% over 1968. Cash flow increased from \$11,610,000 in 1968 to \$12,390,000 in 1969. Although 1969 net

earnings after extraordinary items were \$4,552,000, down from the \$10,796,000 reported in 1968, net earnings before extraordinary items amounted to \$5,018,000, an increase of 12.7% over the \$4,453,000 earned in 1968. However, due to the increased number of shares outstanding the net earnings per share, before extraordinary items, showed a decrease to \$.73 per share as compared to \$.83 per share in 1968. Home has substantial investments in other companies and the market value of these investments declined substantially in recent months. However, the year 1969 produced a number of record highs in the operations of Home. Exploration expenditures at \$31,564,000 were the highest in the company's history and its production of crude oil, natural gas liquids and natural gas all were at record levels. Home is continuing an active exploration program on its acreage on the North Slope of Alaska. Its United Kingdom subsidiary completed an agreement with The Gas Council of the United Kingdom for the sale of natural gas from its Lockton discovery in Yorkshire. A gas plant is presently under construction and is expected to be on stream for the 1970-71 heating season.

Demand for crude oil in the early months of 1970 has been high and, as a result, Home's production of crude oil and natural gas liquids has been running at approximately 21,000 barrels per day, an increase of over 25% from the early months of 1969. President Nixon has recently ordered a cutback of oil exports from Canada into Districts I to IV of the United States to 395,000 barrels per day. The cutback will apply to the remainder of 1970 and is retroactive to March 1. While this is a substantial reduction from recent levels, it still represents a marked increase over the 1969 average of 358,000 barrels per day and an increase of 63,000 barrels per day over the levels previously agreed upon for 1970. It is



anticipated that this cutback will be an interim measure and prospects for Canadian crude for the ensuing period appear to be exceedingly favourable.

The major portion of Home's reserves are located in high-reserve pools in Alberta and therefore it is in an excellent position to benefit from any increased demand. The demand for natural gas has also been heavy and Home's sales have been running approximately 32% ahead of those recorded last year. As a result Home has budgeted for one of its largest exploration programs in Canada.

Cygnus holds 50,000 shares of Atlantic Richfield Company acquired in 1968 at a cost of \$5,639,184 and the market value of which has now fallen below cost. Nevertheless your management is still confident of the long term potential of this investment. Atlantic Richfield is a major petroleum company with assets exceeding \$4 billion. It was one of the companies which discovered the spectacular Prudhoe Bay oil field on the North Slope of Alaska. Reserves on the North Slope are now estimated to exceed 50 billion barrels. Atlantic has reported very satisfactory results for its 1969 operations with increases in practically all areas of production and sales. Its net income from these operations increased by 12% from \$205,816,000 in 1968 to \$230,099,000 in 1969.

Shareholders were informed in the last Annual Report of our interest (27.9%) in Community Antenna Television Limited, a company organized by local Calgary interests to provide cable television service to the City of Calgary. Recent rulings by the Canadian Radio Television Commission have placed restrictions on the importation of U.S. television programs by means of microwave facilities. The feasibility of cablevision service will have to be re-evaluated as soon as the Commission clarifies its policy for the service in areas such as Calgary.

## Subsidiary Operations

Combined earnings of the Company's two wholly-owned subsidiaries, Thio-Pet Chemicals Ltd. and Empire Management Limited, amounted to \$37,981 as compared with \$74,216 in 1968. As mentioned above, the reduction in subsidiary earnings resulted from all loans from the Company to subsidiary companies being placed on an interest bearing basis in 1969. Because of this policy change interest charges against subsidiary operations in 1969 increased by \$128,602. Therefore, the overall results of operations of subsidiary companies improved considerably over 1968.

## Other

Your Company is alarmed about many of the proposals contained in the Canadian Government's White Paper on Tax Reform. Its concern is not only with the adverse effects on the business operations of Cygnus but the serious effects which many of these proposals might have on our economy. Therefore, a brief will be submitted to the Standing Committee on Finance, Trade and Economic Affairs to express our vigorous opposition to many sections of the White Paper. A copy of the brief may be obtained by writing the Secretary of the Company.

Submitted on behalf of the Board



R. A. BROWN, JR.

Chairman and President

March 10, 1970

# STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1969

	<u>1969</u>	<u>1968</u>
FUNDS WERE OBTAINED FROM		
Operations		
Net earnings .....	\$154,262	\$ 429,825
Charges (credits) to earnings not requiring funds		
Subsidiary companies' earnings .....	(37,981)	(74,216)
Amortization of share issue and organization expense and other non-cash charges .....	24,134	39,930
	<u>140,415</u>	<u>395,539</u>
Repayment of advances by subsidiary companies .....	123,512	-
Issuance of Class B shares .....	105,000	21,000
Proceeds from long term bank borrowing .....	-	5,793,188
	<u>\$368,927</u>	<u>\$6,209,727</u>
FUNDS WERE USED FOR		
Investments - Home Oil Company Limited .....	\$ -	\$ 639,010
- Atlantic Richfield Company .....	-	5,639,184
- Community Antenna Television Limited .....	-	80,000
Advances to subsidiary companies .....	-	169,938
Redemption of preferred shares .....	-	30,538
Dividends - Preferred shares .....	39,798	130,052
- Class A shares .....	111,455	88,955
	<u>151,253</u>	<u>6,777,677</u>
INCREASE (DECREASE) IN WORKING CAPITAL .....	217,674	(567,950)
	<u>\$368,927</u>	<u>\$6,209,727</u>

*The accompanying notes are an integral part of this financial statement.*



# BALANCE SHEET

## ASSETS

### CURRENT ASSETS

	<u>1969</u>	<u>1968</u>
Cash .....	\$ 173,648	\$ 265,706
Dividends receivable .....	250,000	326,535
Accrued interest receivable .....	34,985	-
	<u>458,633</u>	<u>592,241</u>

### INVESTMENTS (Note 1)

Home Oil Company Limited .....	14,879,059	14,879,059
Atlantic Richfield Company .....	5,639,184	5,639,184
Other .....	80,000	80,000
	<u>20,598,243</u>	<u>20,598,243</u>

### INVESTMENT IN AND ADVANCES TO WHOLLY-OWNED SUBSIDIARIES (Note 2) .....

<u>2,003,173</u>	<u>2,105,198</u>
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### OTHER ASSETS .....

<u>-</u>	<u>17,385</u>
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Approved on behalf of the Board:

*R. A. Brown* Director

*Robert W. Campbell* Director

<u>\$23,060,049</u>	<u>\$23,313,067</u>
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The accompanying notes are an in

AT DECEMBER 31, 1969

## LIABILITIES

### CURRENT LIABILITIES

	<u>1969</u>	<u>1968</u>
Bank indebtedness, secured by investments .....	\$ 574,000	\$ 900,000
Accounts payable .....	16,301	11,219
Dividend payable .....	-	30,364
	<u>590,301</u>	<u>941,583</u>

### LONG TERM DEBT (Note 3)

Bank indebtedness, secured .....	<u>5,799,938</u>	<u>5,793,188</u>
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## SHAREHOLDERS' EQUITY

### CAPITAL STOCK (Note 4)

#### Authorized

375,000 Preferred shares of the par value of \$20 each, issuable in series

4,000,000 Class A shares of no par value

4,000,000 Class B shares of no par value

#### Issued

5½% Cumulative redeemable convertible preferred shares

(1968 - 106,790) .....

1,370,289 Class A shares (1968 - 943,129) .....

2,624,374 Class B shares (1968 - 2,609,374) .....

-	2,135,800
5,740,352	3,604,552
9,869,565	9,764,565
<u>15,609,917</u>	<u>15,504,917</u>

### SURPLUS

Capital surplus (Note 4) .....	92,500	92,500
Retained earnings .....	967,393	980,879
	<u>16,669,810</u>	<u>16,578,296</u>
	<u>\$23,060,049</u>	<u>\$23,313,067</u>

part of this financial statement.



**STATEMENT OF EARNINGS**  
FOR THE YEAR ENDED DECEMBER 31, 1969

	<u>1969</u>	<u>1968</u>
<b>REVENUE</b>		
Dividends .....	\$586,893	\$516,888
Interest .....	140,554	11,952
	<u>727,447</u>	<u>528,840</u>
<b>EXPENSE</b>		
General and administrative .....	102,411	51,606
Interest .....	491,370	81,695
Amortization of share issue and organization expense .....	17,385	39,930
	<u>611,166</u>	<u>173,231</u>
Net earnings before subsidiary companies' earnings .....	116,281	355,609
Subsidiary companies' earnings (Note 2) .....	37,981	74,216
<b>NET EARNINGS (Note 5) .....</b>	<u><u>\$154,262</u></u>	<u><u>\$429,825</u></u>

**STATEMENT OF RETAINED EARNINGS**  
FOR THE YEAR ENDED DECEMBER 31, 1969

	<u>1969</u>	<u>1968</u>
<b>BALANCE AT BEGINNING OF YEAR .....</b>	<b>\$ 980,879</b>	<b>\$ 800,599</b>
Adjustment in respect of prior year's deferred income taxes of an unconsolidated subsidiary .....	(16,495)	-
Net earnings .....	154,262	429,825
	<u>1,118,646</u>	<u>1,230,424</u>
Dividends declared		
Preferred shares .....	39,798	130,052
Class A shares .....	111,455	88,955
Appropriation of retained earnings on purchase for cancellation of preferred shares .....	-	30,538
	<u>151,253</u>	<u>249,545</u>
<b>BALANCE AT END OF YEAR .....</b>	<u><u>\$ 967,393</u></u>	<u><u>\$ 980,879</u></u>

*The accompanying notes are an integral part of these financial statements.*



# NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 1969

## 1. INVESTMENTS

Details of investments are as follows:

	Number of Shares	Cost	Quoted Market Value, Dec. 31, 1969
Home Oil Company Limited Class B shares	1,000,000	\$14,879,059	\$31,500,000
Atlantic Richfield Company .....	50,000	5,639,184	4,621,000
Community Antenna Television Limited ....	40,000	80,000	-

The quoted market value of the above investments has declined substantially since December 31, 1969.

## 2. INVESTMENT IN AND ADVANCES TO WHOLLY-OWNED SUBSIDIARIES

The financial statements include full provision for the aggregate losses of the company's wholly-owned subsidiaries, Thio-Pet Chemicals Ltd. and Empire Management Limited, from dates of acquisition.

Consolidated financial statements were not prepared because of the dissimilarity of the operations of the company and its subsidiaries.

Investments in and advances to wholly-owned subsidiaries consist of:

Shares, at cost .....	\$ 88,445
7% Notes .....	1,997,500
	<hr/>
	2,085,945
Losses from date of acquisition .....	(82,772)
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	<u>\$2,003,173</u>

## 3. LONG TERM DEBT

Bank indebtedness shown under long term debt comprises a \$5,400,000 U.S. dollar bank loan with interest at 10% per annum repayable on demand. This loan was incurred in 1968 to purchase shares of Atlantic Richfield Company and is secured by this and other investments.

#### 4. CAPITAL STOCK

##### (a) *5½% Cumulative Redeemable Convertible Preferred Shares*

During the year, 106,790 preferred shares were converted by the holders thereof into 427,160 Class A shares.

Capital surplus arose in prior years on purchase and cancellation of preferred shares.

##### (b) *Dividends – Class A and Class B Shares*

The holders of Class A shares are entitled to cumulative dividends of 10 cents per share per annum payable on July 1. After payment of these dividends, the company may pay dividends up to 10 cents per share per annum to the Class B shareholders. Dividends in excess of the foregoing, in any year, are payable equally on Class A and Class B shares.

##### (c) *Share Options*

At December 31, 1969, 132,000 Class B shares are reserved for issuance to employees of the company and its subsidiary and affiliated companies under the terms of an Incentive Share Option Plan, of which options are outstanding to purchase 79,000 shares (including 70,000 to officers and directors of the company) at the price of \$7 per share exercisable up to December 22, 1976. During the year, options on 15,000 shares were exercised.

#### 5. INCOME TAXES

The company has paid no income taxes as its revenue consists mainly of dividends from a taxable Canadian corporation; such dividends are excluded from taxable income.

#### 6. COMMITMENT

The company may be obligated to guarantee or otherwise provide up to a maximum of \$2,187,500 in respect of the estimated debt requirement of Community Antenna Television Limited.

#### 7. EXECUTIVE REMUNERATION

Directors' fees in the amount of \$8,400 have been charged against earnings for the year.



## AUDITORS' REPORT

TO THE SHAREHOLDERS  
CYGNUS CORPORATION LIMITED

We have examined the balance sheet of Cygnus Corporation Limited as at December 31, 1969 and the statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 26, 1970.

RIDDELL, STEAD & CO.  
Chartered Accountants





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CORPORATION  
LIMITED

**SPECIAL REPORT**  
to the  
**SHAREHOLDERS**

**January 14, 1969**

**CALGARY, ALBERTA**

# CYGNUS CORPORATION LIMITED

## TO THE SHAREHOLDERS:

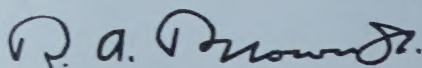
This Special Report to the shareholders has been prepared to inform you of the recent investments made by your Company.

The Company's investment in Home Oil Company Limited was increased to 1,000,000 Class B (voting) shares and now represents 39% of the total outstanding Class B shares of Home. This position resulted from the acquisition of 20,735 Class B shares of Home at a cost of \$639,000.

Your Company has also acquired 50,000 shares of Atlantic Richfield Company at a cost of \$5,250,000 (U.S.) or \$105 (U.S.) per share. Atlantic Richfield is a large integrated oil company with production, refining and marketing operations principally in the United States. This investment will, over the long term, provide our Company with an effective participation in the benefits that may accrue from the development of reserves in the Prudhoe Bay area of Alaska.

Two major oil discoveries were made by Atlantic Richfield and Humble at Prudhoe Bay on the North Slope of Alaska in mid-1968. The firm of DeGolyer, McNaughton has estimated that recoverable reserves may be in the range of 5 to 10 billion barrels. The magnitude of these discoveries has focused world-wide attention on what could be one of the world's largest petroleum accumulations.

Home Oil has also been active on the North Slope of Alaska and the details of its activities are described in the copy of the Special Report to the Shareholders of Home dated January 13, 1969 which accompanies this Report.



R. A. BROWN, JR.

President

Calgary, Alberta  
January 14, 1969